United States General Accounting Office

# GAO

Report to the Secretary of the Treasury

March 2001

# FINANCIAL AUDIT

# Bureau of the Public Debt's Fiscal Years 2000 and 1999 Schedules of Federal Debt

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| **Abstract**<br>The accompanying auditors report presents the results of our audits of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2000 and 1999. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Discounts and Premiums managed by the bureau.1 | |
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**Abbreviations**

| | |
|---|---|
| BPD | Bureau of the Public Debt |
| OMB | Office of Management and Budget |

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**Comptroller General of the United States**

**United States General Accounting Office**
**Washington, D.C. 20548**

March 1, 2001

The Honorable Paul H. O'Neill
The Secretary of the Treasury

Dear Mr. Secretary:

The accompanying auditor's report presents the results of our audits of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2000 and 1999. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Discounts and Premiums managed by the bureau.[1]

The auditor's report contains our (1) opinion on the Schedules of Federal Debt for the fiscal years ended September 30, 2000 and 1999, (2) opinion on the effectiveness of related internal control as of September 30, 2000, (3) conclusion on the bureau's compliance in fiscal year 2000 with a selected provision of a significant law we tested, and (4) conclusion on the consistency between information in the Schedules of Federal Debt and the Overview on Federal Debt Managed by the Bureau of the Public Debt.

As of September 30, 2000 and 1999, federal debt managed by the bureau totaled about $5,659 billion and $5,641 billion, respectively, for moneys borrowed to fund the government's operations. These balances consisted of approximately (1) $3,439 billion as of September 30, 2000, and $3,668 billion as of September 30, 1999, of debt held by the public and about (2) $2,220 billion as of September 30, 2000, and $1,973 billion as of September 30, 1999, of intragovernmental holdings.

The level of debt held by the public reflects how much of the nation's wealth has been absorbed by the federal government to finance prior federal spending in excess of revenues. It best represents the cumulative effect of past federal borrowing on today's economy and the federal

[1]Intragovernmental Holdings represent federal debt issued by Treasury and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

budget. When an actual budget surplus occurs, the annual excess funds are then used to reduce debt held by the public. In other words, actual deficits or surpluses generally approximate the annual net change in the amount of government borrowing from the public.

As we recently reported in our Performance and Accountability Series,[2] budget surpluses over the past 3 years have resulted in Treasury reducing debt held by the public. Treasury has reduced this debt by redeeming maturing debt, reducing the number of auctions and size of new debt issues, eliminating the 3-year note, conducting “buybacks” of debt before its maturity date, and redeeming callable securities when the opportunities arose.[3] As a result of Treasury’s actions, debt held by the public and managed by the Bureau of the Public Debt, has been reduced by approximately $376 billion since September 30, 1997, with about $229 billion of this decrease occurring in fiscal year 2000.

Intragovernmental holdings represent balances of Treasury securities held by individual funds, primarily trust funds, that typically have an obligation to invest their excess annual receipts over disbursements in federal securities. Most federal trust funds invest in special U.S. Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. government. These securities are nonmarketable, however, they represent a priority call on future budgetary resources. Certain of these trust funds such as the Social Security and federal civilian employee and military retirement trust funds, have been running annual surpluses, which are loaned to the Treasury and reduce the current need for the government to borrow from the public. Primarily as a result of such trust fund surpluses, intragovernmental holdings have increased by approximately $637 billion since September 30, 1997, with about $247 billion of this increase occurring in fiscal year 2000.

The transactions relating to the use of the funds’ surpluses net out on the government’s consolidated financial statements because, in effect, they represent loans from one part of the government to another. Importantly, these intragovernmental holdings also constitute future obligations of the Treasury since the Treasury must provide cash to redeem these securities

[2] *Major Management Challenges and Program Risks: Department of the Treasury* (GAO-01-254, January 2001).

[3] On January 31, 2001, Treasury announced that it is eliminating the 52-week bill.

in order for the funds to pay their benefits or other obligations as they come due. When this occurs, the government must fund these redemptions through some combination of reduced future surpluses, if available; lower relative spending for federal programs; higher relative taxes; and/or greater relative borrowing from the public.

Debt held by the public and intragovernmental holdings are very different. Debt held by the public approximates the federal government's competition with other sectors in the credit markets. This competition affects current interest rates and private capital accumulation. In addition, interest on debt held by the public is a current burden on taxpayers. In contrast, intragovernmental holdings perform an accounting function but typically do not constitute the government's total future commitment to trust fund financed programs. They primarily represent the cumulative annual surpluses of those trust funds and also reflect future claims on the U.S. Treasury. They do not have the current economic effects of borrowing from the public and do not currently compete with the private sector for available funds in the credit markets. However, when trust funds redeem Treasury securities to obtain cash to fund expenditures, they compete with the private sector and thus have an effect on the economy.

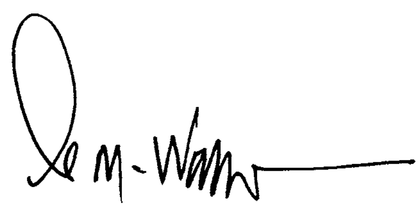
Even after 3 years of budgetary surpluses, debt held by the public stands at about $3.4 trillion, or 35 percent of the annual size of the U.S. economy, a level that the United States rarely exceeded before 1940. However, the projected surpluses, if they materialize and depending on how much is saved, could lead to a dramatic reduction in or potential elimination of debt held by the public. Over the longer term, the retirement of the baby boom generation will place significant pressures on the federal budget. These pressures—including, for example, increasing demand for health services—will require reform of existing entitlement programs and/or other policy actions to prevent debt held by the public from dramatically rising again in future decades.

We are sending copies of this report to Senator Max Baucus, Senator Robert Byrd, Senator Ben Nighthorse Campbell, Senator Kent Conrad, Senator Pete Domenici, Senator Byron Dorgan, Senator Charles Grassley, Senator Joseph Lieberman, Senator Ted Stevens, Senator Fred Thompson, and to Representative Dan Burton, Representative Stephen Horn, Representative Steny Hoyer, Representative Ernest Istook, Representative Jim Nussle, Representative David Obey, Representative Charles Rangel, Representative Janice Schakowsky, Representative John Spratt, Representative William Thomas, Representative Henry Waxman, and

Representative C.W. Bill Young in their capacities as Chairmen, Ranking Members, or Ranking Minority Members of Senate or House Committees and Subcommittees. We are also sending copies of this report to Van Zeck, Commissioner, Bureau of the Public Debt; the Honorable Jeffrey Rush, Jr., Inspector General, Department of the Treasury; the Honorable Mitchell Daniels, Jr., Director, Office of Management and Budget; and other agency officials. Copies will be made available to others upon request.

If I can be of further assistance, please call me at (202) 512-5500. This report was prepared under the direction of Gary T. Engel, Director, Financial Management and Assurance. Should you or members of your staff have any questions concerning this report, please contact Mr. Engel at (202) 512-3406. Another key contact and staff acknowledgments are in appendix II.

Sincerely yours,



David M. Walker
Comptroller General
of the United States

To the Commissioner of the Bureau of the Public Debt

In connection with fulfilling our requirement to audit the financial statements of the U.S. government, we audited the Schedules of Federal Debt Managed by the Bureau of the Public Debt (BPD) because of the significance of the federal debt on the federal government's financial statements.[1]

This auditor's report presents the results of our audits of the Schedules of Federal Debt Managed by BPD for the fiscal years ended September 30, 2000 and 1999. The Schedules of Federal Debt present the beginning balances, increases and decreases, and ending balances for (1) Federal Debt Held by the Public and Intragovernmental Holdings, (2) the related Accrued Interest Payables, and (3) the related Net Unamortized Discounts and Premiums managed by BPD.[2]

In our audits of the Schedules of Federal Debt for the fiscal years ended September 30, 2000 and 1999, we found

- the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with generally accepted accounting principles;
- BPD had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations related to the Schedule of Federal Debt for the fiscal year ended September 30, 2000; and
- no reportable noncompliance in fiscal year 2000 with a selected provision of a law we tested.

The following sections discuss, in more detail, (1) these conclusions and our conclusion on the Overview on Federal Debt Managed by the Bureau of the Public Debt and (2) the scope of our audits.

[1]31 U.S.C. 331(e) (1994).

[2]Intragovernmental Holdings represent federal debt issued by Treasury and held by certain federal government accounts, such as the Social Security and Medicare trust funds.

## Opinion on Schedules of Federal Debt

The Schedules of Federal Debt including the accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the balances as of September 30, 2000, 1999, and 1998, for Federal Debt Managed by BPD; the related Accrued Interest Payables and Net Unamortized Discounts and Premiums; and the related increases and decreases for the fiscal years ended September 30, 2000 and 1999.

## Opinion on Internal Control

BPD maintained, in all material respects, effective internal control relevant to the Schedule of Federal Debt related to financial reporting (including safeguarding assets) and compliance with applicable laws and regulations as of September 30, 2000. The internal control provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the Schedule of Federal Debt for the fiscal year ended September 30, 2000, would be prevented or detected on a timely basis. Management asserted that its internal control is effective based on criteria established under 31 U.S.C. 3512 (Federal Managers' Financial Integrity Act) and the Office of Management and Budget (OMB) Circular A-123, Management Accountability and Control.

We found matters involving computer controls that we do not consider to be reportable conditions.[3] We will communicate these matters to BPD's management, along with our recommendations for improvement, in a separate report to be issued at a later date.

## Compliance With Laws and Regulations

Our tests for compliance in fiscal year 2000 with Statutory Debt Limits, 31 U.S.C. 3101(b), as amended, disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit of the Schedule of Federal Debt for the fiscal year ended September 30, 2000, was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

[3]Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to meet the internal control objectives described in the report.

## Consistency of Other Information

BPD's Overview on Federal Debt Managed by the Bureau of the Public Debt contains information, some of which is not directly related to the Schedules of Federal Debt. We do not express an opinion on this information. However, we compared this information for consistency with the schedules and discussed the methods of measurement and presentation with BPD officials. Based on this limited work, we found no material inconsistencies with the schedules.

## Objectives, Scope, and Methodology

Management is responsible for

- preparing the Schedules of Federal Debt in conformity with U.S. generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the Schedules of Federal Debt are presented fairly, in all material respects, in conformity with generally accepted accounting principles and (2) management maintained effective related internal control as of September 30, 2000, the objectives of which are the following:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule of Federal Debt for the fiscal year ended September 30, 2000, in conformity with generally accepted accounting principles, and assets, as reflected in note 5 to the Schedules of Federal Debt, are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with laws and regulations: Transactions related to the Schedule of Federal Debt for the fiscal year ended September 30, 2000, are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the Schedules of Federal Debt and any other laws, regulations, and governmentwide policies identified by OMB audit guidance.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the Schedule of Federal Debt. Further, we are responsible for performing limited

procedures with respect to certain other information appearing with the Schedules of Federal Debt.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Schedules of Federal Debt;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the Schedules of Federal Debt;
- obtained an understanding of internal control relevant to the Schedule of Federal Debt for the fiscal year ended September 30, 2000, related to financial reporting (including safeguarding assets as reflected in note 5 to the schedules) and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting (including safeguarding assets as reflected in note 5 to the schedules) and compliance, and evaluated the design and operating effectiveness of internal control related to the Schedule of Federal Debt for the fiscal year ended September 30, 2000;
- considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act; and
- tested compliance in fiscal year 2000 with Statutory Debt Limits, 31 U.S.C. 3101(b), as amended.

We did not evaluate all internal controls relevant to operating objectives as broadly described by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to BPD. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the Schedule of Federal Debt. We caution that noncompliance may occur and not be

detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and applicable OMB audit guidance.

## Agency Comments

In commenting on a draft of this report, BPD concurred with the facts and conclusions in our report. The comments are reprinted in appendix I.

David M. Walker
Comptroller General
of the United States

January 31, 2001

# Overview, Schedules, and Notes

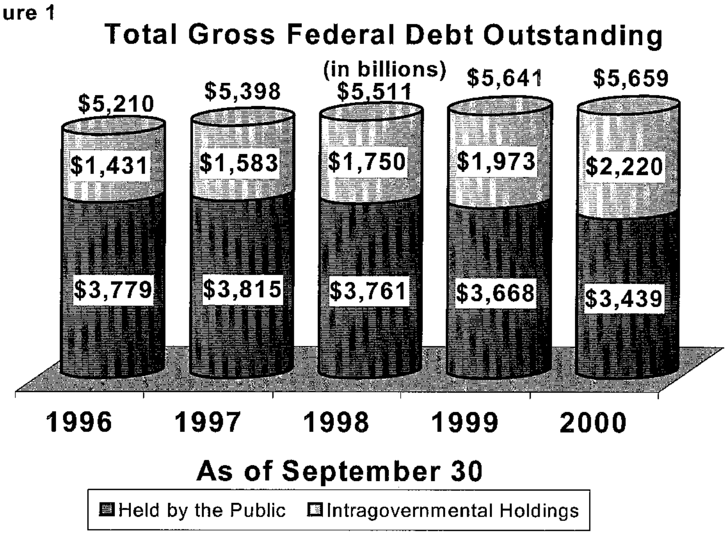
## Overview on Federal Debt Managed by the Bureau of the Public Debt

### Overview on Federal Debt Managed by the Bureau of the Public Debt

#### *Federal Debt Outstanding*[1]

Federal debt managed by the Bureau of the Public Debt comprises debt held by the public and debt held by certain federal government accounts, the latter of which is referred to as intragovernmental holdings. As of September 30, 2000 and 1999, outstanding gross federal debt managed by the bureau totaled $5,659 and $5,641 billion, respectively. The increase in gross federal debt of $18 billion during fiscal year 2000 was due to an increase in gross intragovernmental holdings of $247 billion that exceeded a decrease in gross debt held by the public of $229 billion. As Figure 1 illustrates, intragovernmental holdings have steadily increased over the past 5 years while debt held by the public has decreased, beginning in fiscal year 1998. The primary reason for the increases in intragovernmental holdings is the annual surpluses in the Federal Old-Age and Survivors Insurance, Federal Disability Insurance, Military Retirement, and Civil Service Retirement and Disability trust funds. The decreases in debt held by the public during fiscal years 1998 to 2000 are due primarily to federal revenues exceeding federal spending during those years. As of September 30, 2000, gross debt held by the public totaled $3,439 billion and gross intragovernmental holdings totaled $2,220 billion.

Figure 1

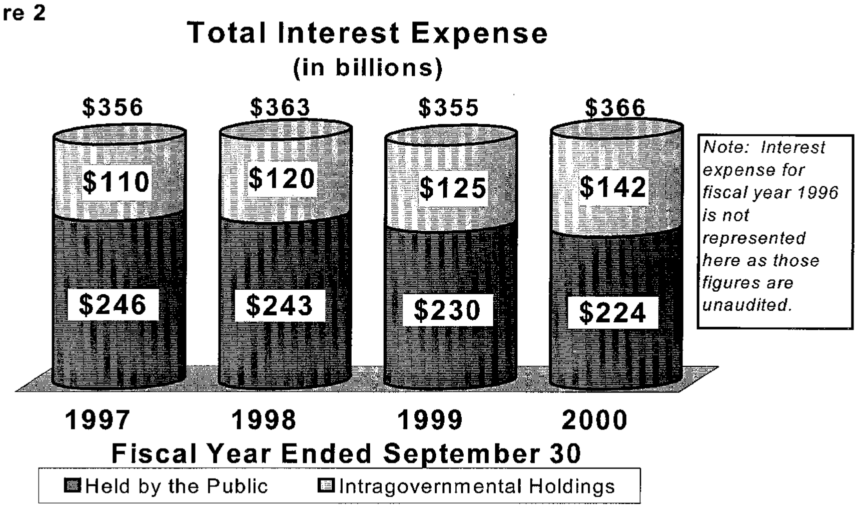



[1] Federal debt outstanding reported here differs from the amount reported in the Financial Report of the United States Government because of the securities not maintained or reported by the bureau and which are issued by the Federal Financing Bank and other federal government agencies.

### *Interest Expense*

Interest expense incurred during fiscal year 2000 consists of (1) interest accrued and paid on debt held by the public or credited to intragovernmental holdings during fiscal year 2000, (2) interest accrued during the fiscal year, but not yet paid on debt held by the public or credited to intragovernmental holdings, and (3) net amortization of premiums and discounts. The primary components of interest expense are interest paid on the debt held by the public and interest credited to federal government trust funds and other federal government accounts that hold Treasury securities. The interest paid on the debt held by the public affects the current spending of the federal government and represents the burden in servicing its debt (i.e., payments to outside creditors). Interest credited to federal government trust funds and other federal government accounts, on the other hand, does not result in an immediate outlay of the federal government because one part of the government pays the interest and another part receives it. This interest, when reinvested by the trust funds and other federal government accounts, is included in the programs' excess funds not currently needed in operations, which are invested in federal securities. During fiscal year 2000, interest expense incurred totaled $366 billion, interest expense on debt held by the public was $224 billion, and $142 billion was interest incurred for intragovernmental holdings. Figure 2 shows total interest expense incurred during fiscal years 1997 through 2000.

Figure 2



## *Debt Held by the Public*

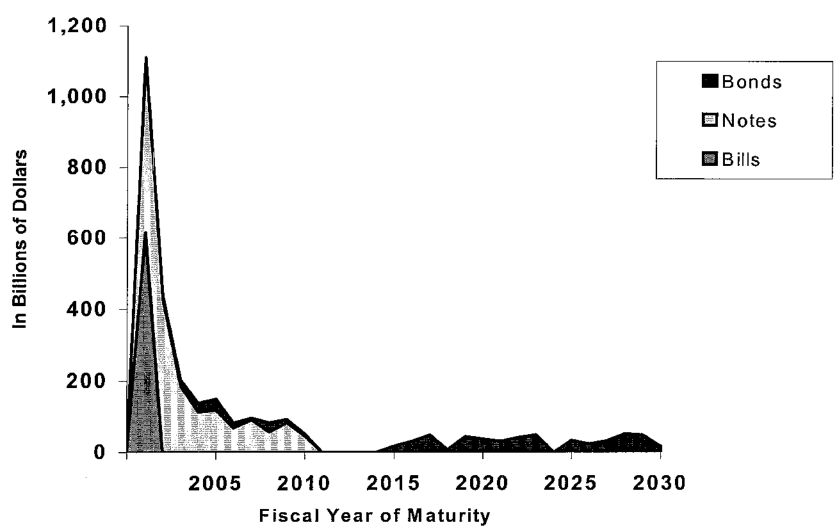
Debt held by the public reflects how much of the nation's wealth has been absorbed by the federal government to finance prior federal spending in excess of revenues. As of September 30, 2000 and 1999, gross debt held by the public totaled $3,439 billion and $3,668 billion, respectively (see Figure 1), a decrease of $229 billion.

As of September 30, 2000, $3,009 billion, or 87 percent, of the securities that constitute debt held by the public were marketable, meaning that once the government issues them, they can be resold by whoever owns them. Marketable debt is made up of Treasury bills, notes, and bonds with maturity dates ranging from less than 1 year out to 30 years. Of the marketable securities currently held by the public as of September 30, 2000, the majority will mature within the next 5 years (see Figure 3).

The government also issues to the public, state and local governments, and foreign governments and central banks nonmarketable securities, which cannot be resold, and have maturity dates from on demand to more than 10 years. As of September 30, 2000, nonmarketable securities totaled $430 billion, or 13 percent of debt held by the public. As of that date, nonmarketable securities primarily consisted of savings securities totaling $184 billion and special securities for state and local governments totaling $153 billion.

Figure 3

**Maturity Dates[2] of Marketable Debt Held by the Public as of September 30, 2000**




[2] Callable securities mature between 2007 and 2014, but are reported by their call date, 5 years earlier – this explains the gap in the figure.

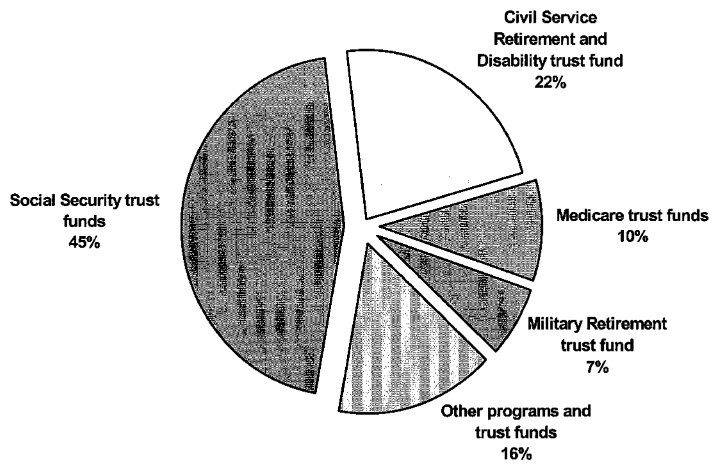
## *Intragovernmental Holdings*

Intragovernmental holdings represent balances of Treasury securities held by 214 individual funds with authority to invest excess receipts in special U.S. Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. Government. Intragovernmental holdings primarily consist of balances in the Social Security, Medicare, Military Retirement, and Civil Service Retirement and Disability trust funds[3]. As of September 30, 2000, such funds accounted for $1,867 billion, or 84 percent, of the $2,220 billion intragovernmental holdings balances (see Figure 4). As of September 30, 2000 and 1999, gross intragovernmental holdings totaled $2,220 billion and $1,973 billion, respectively, an increase of $247 billion.

The majority of intragovernmental holdings are Government Account Series (GAS) securities. GAS securities consist of par value securities and market-based securities, with terms ranging from on demand out to 30 years. Par value securities are issued and redeemed at par (100 percent of the face value), regardless of current market conditions. Market-based securities, however, can be issued at a premium or discount and are redeemed at par value on the maturity date or at market value if redeemed before the maturity date.

Figure 4

**Components of Intragovernmental Holdings as of September 30, 2000**




[3] The Social Security trust funds consist of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund. In addition, the Medicare trust funds are made up of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund.

## Debt Buybacks

Because of the government's improved fiscal position over the past 3 years, Treasury's need to borrow from the public has declined, resulting in several changes related to debt management. One such change, beginning in fiscal year 2000, was Treasury's decision to buy back certain unmatured marketable securities. Debt buybacks are competitive redemption processes by which Treasury accepts offers to redeem certain marketable Treasury securities prior to their maturity date. Once the securities have been redeemed from investors, they are removed from the total Treasury securities outstanding.

Buying back debt early is an effective tool for (1) managing excess cash when tax revenues exceed the immediate spending needs of the government, (2) enhancing the liquidity of Treasury benchmark securities, which promotes overall market liquidity and helps reduce the government's interest costs over time, and (3) managing the average maturity of Treasury securities by paying off selected debt.

During fiscal year 2000, a total of 13 buybacks occurred involving the redemption of $21.3 billion of marketable Treasury securities at a total price of $26.7 billion[4]. Treasury securities bought back during fiscal year 2000 consisted of Treasury bonds with maturity dates ranging from 2013 to 2025 and interest rates ranging from 6.25 percent to 13.25 percent.

## Historical Perspective

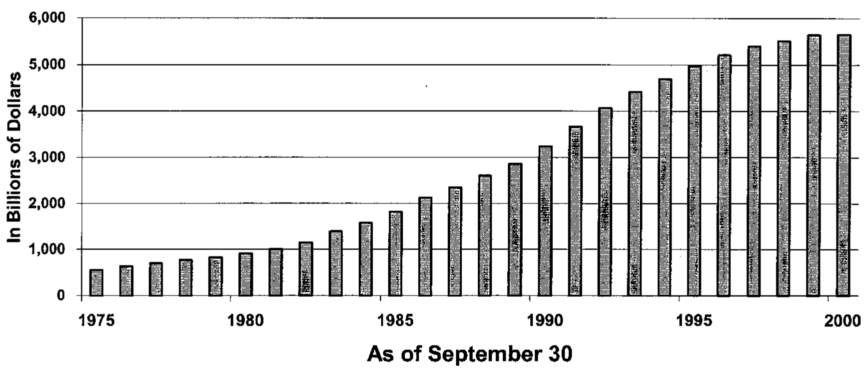
Federal debt outstanding is the largest legally binding obligation of the federal government. Nearly all the federal debt has been issued by the Treasury with a small portion being issued by other federal government agencies. Treasury issues debt securities for two principal reasons, (1) to borrow needed funds to finance the operations of the federal government and (2) to issue debt to certain federal government accounts, primarily trust funds.

Total federal debt outstanding has dramatically increased over the past 25 years from $554 billion as of September 30, 1975 to $5,659 billion as of September 30, 2000 (see Figure 5). During the 1970's, large budget deficits emerged as the economy was disrupted by oil crises and inflation. Until a few years ago, federal deficits continued to be large and debt continued to grow substantially. As a result, total federal debt increased nearly five fold since 1980. However, by the late 1990's, federal debt held by the public was beginning to decline. In fiscal years 1998 through 2000, the amount of debt held by the public fell by $376 billion. Despite the decline in federal debt held by the public, total federal debt increased over this same period because of increases in intragovernmental holdings of $637 billion. By law, trust fund surpluses generally must be invested in federal securities. As a result, the intragovernmental holdings balances primarily represent the cumulative surplus of funds due to the trust funds' cumulative annual excess of tax receipts, interest credited, and other collections compared to spending. As shown in Figure 6, interest rates have fluctuated over the past 25 years. The highest interest rates occurred from the early 1980's through the early 1990's, periods when the federal deficits grew substantially.

[4] A buyback operation was held on September 28, 2000, but did not settle until October 2, 2000; therefore it is not included in the fiscal year 2000 buyback activity.

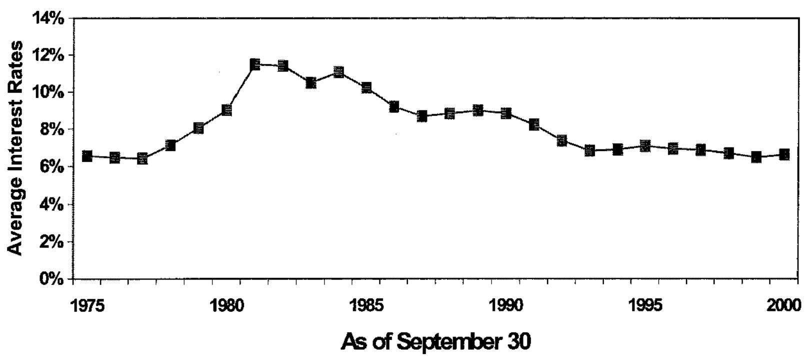
## *Historical Perspective, cont.*

Figure 5 **Federal Debt Outstanding**




*Source: Monthly Statement of Public Debt Figures shown prior to 1996 are unaudited and include securities issued by the Federal Financing Bank.*

Figure 6 **Average Interest Rates of Federal Debt Outstanding (Unaudited)**




*Source: Monthly Statement of Public Debt*

## Schedules of Federal Debt

Schedules of Federal Debt
Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2000 and 1999
(Dollars in Millions)

| | Federal Debt | | | | | |
|---|---|---|---|---|---|---|
| | Held by the Public | | | Intragovernmental Holdings | | |
| | Principal (Note 2) | Accrued Interest Payable | Net Unamortized Discounts | Principal (Note 3) | Accrued Interest Payable | Net Unamortized Premiums/ (Discounts) |
| Balance as of September 30, 1998 | $3,761,222 | $45,430 | ($66,720) | $1,749,971 | $30,514 | $4,727 |
| Increases | | | | | | |
| Borrowings from the Public | 2,159,683 | | (29,695) | | | |
| Net Increase in Intragovernmental Holdings | | | | 222,920 | | (4,278) |
| Accrued Interest (Note 4) | | 196,448 | | | 127,517 | |
| Total Increases | 2,159,683 | 196,448 | (29,695) | 222,920 | 127,517 | (4,278) |
| Decreases | | | | | | |
| Repayments of Debt Held by the Public | 2,252,525 | | | | | |
| Interest Paid | | 199,290 | | | 125,243 | |
| Net Amortization (Note 4) | | | (33,619) | | | 2,048 |
| Total Decreases | 2,252,525 | 199,290 | (33,619) | 0 | 125,243 | 2,048 |
| Balance as of September 30, 1999 | 3,668,380 | 42,588 | (62,796) | 1,972,891 | 32,788 | (1,599) |
| Increases | | | | | | |
| Borrowings from the Public | 2,042,955 | | (32,121) | | | |
| Net Increase in Intragovernmental Holdings | | | | 247,264 | | (3,597) |
| Accrued Interest (Note 4) | | 186,007 | | | 140,917 | |
| Total Increases | 2,042,955 | 186,007 | (32,121) | 247,264 | 140,917 | (3,597) |
| Decreases | | | | | | |
| Repayments of Debt Held by the Public | 2,272,312 | | | | | |
| Interest Paid | | 184,374 | | | 136,453 | |
| Net Amortization (Note 4) | | | (38,767) | | | (866) |
| Total Decreases | 2,272,312 | 184,374 | (38,767) | 0 | 136,453 | (866) |
| Balance as of September 30, 2000 | $3,439,023 | $44,221 | ($56,150) | $2,220,155 | $37,252 | ($4,330) |

*The accompanying notes are an integral part of these schedules.*

## Notes to the Schedules of Federal Debt

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2000 and 1999

(Dollars in Millions)

Note 1. Significant Accounting Policies

Basis of Presentation

The Schedules of Federal Debt Managed by the Bureau of the Public Debt (BPD) have been prepared to report fiscal year 2000 and 1999 balances and activity relating to monies borrowed from the public and certain federal government accounts to fund the U.S. government's operations. All fiscal year end balances reported on the Schedules of Federal Debt are not covered by budgetary resources.

Reporting Entity

The Constitution empowers Congress to borrow money on the credit of the United States. Congress has authorized the Secretary of the Treasury to borrow monies to operate the federal government within a statutory debt limit. Within Treasury, BPD is responsible for issuing Treasury securities in accordance with such authority and to account for the resulting debt. Title 31 U.S.C. authorizes BPD, an organizational entity within the Fiscal Service of the Department of the Treasury, to prescribe the debt instruments and otherwise limit and restrict the amount and composition of the debt. In addition, BPD has been given the responsibility to issue Treasury securities to trust funds for trust fund receipts not needed for current benefits and expenses. BPD issues and redeems Treasury securities for the trust funds based on data provided by program agencies and other Treasury entities.

Basis of Accounting

The schedules were prepared in conformity with generally accepted accounting principles and from BPD's automated accounting system, Public Debt Accounting and Reporting System. Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using the effective interest method for zero-coupon bonds and the straight line method, which is not materially different from the effective interest method, for the other securities. The Department of the Treasury also issues inflation-indexed securities. Inflation-indexed securities accrue principal over the life of the security based on the Consumer Price Index for all Urban Consumers. For marketable securities bought back prior to maturity through competitive redemption processes, the difference between the reacquisition price and the net carrying value of the extinguished debt is recognized as a gain or loss in the period of extinguishment.

Budgetary Authority

Permanent, indefinite appropriations are available for the payment of interest on the federal debt, the redemption of Treasury securities, and the loss on marketable securities bought back prior to maturity through competitive redemption processes.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2000 and 1999

(Dollars in Millions)

Note 2. Federal Debt Held by the Public

As of September 30, 2000 and 1999, Federal Debt Held by the Public consisted of the following:

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Amount | Average Interest Rates | Amount | Average Interest Rates |
| Marketable: | | | | |
| Treasury Bills | $616,174 | 6.2% | $653,165 | 4.9% |
| Treasury Notes | 1,724,263 | 5.8% | 1,896,427 | 6.0% |
| Treasury Bonds | 668,229 | 8.2% | 667,359 | 8.4% |
| Total Marketable | $3,008,666 | | $3,216,951 | |
| Nonmarketable | $430,357 | 6.5% | $451,429 | 6.1% |
| Total Federal Debt Held by the Public | $3,439,023 | | $3,668,380 | |

Treasury issues marketable bills at a discount and pays the par amount of the security upon maturity. The average interest rate on a Treasury bill represents the average effective yield on the security. Treasury bills are issued with a term of 1 year or less.

Treasury issues marketable notes and bonds as long term securities that pay semi-annual interest based on the security's stated interest rate. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium. Treasury notes are issued with a term of 2 – 10 years and Treasury bonds are issued with a term of more than 10 years. As of September 30, 2000, Treasury marketable notes included $81,597 million of inflation-indexed notes and Treasury marketable bonds included $33,391 million of inflation-indexed bonds. As of September 30, 1999, Treasury marketable notes included $67,589 million of inflation-indexed notes and Treasury marketable bonds included $24,776 million of inflation-index bonds.

As of September 30, 2000, nonmarketable securities primarily consisted of $184,449 million in U.S. Savings Securities, $153,288 million in securities issued to State and Local Governments, $25,431 million in Foreign Series Securities, and $29,996 million in Domestic Series Securities. As of September 30, 1999, nonmarketable securities primarily consisted of $186,333 million in U.S. Savings Securities, $168,091 million in securities issued to State and Local Governments, $30,970 million in Foreign Series Securities, and $29,995 million in Domestic Series Securities. Treasury issues nonmarketable securities at either par value or at an amount that reflects a discount or a premium. The average interest rate on the nonmarketable securities represents the weighted effective yield. Nonmarketable securities are issued with a term of on demand to more than 10 years.

Government Account Series (GAS) securities are nonmarketable securities issued to federal government accounts. Federal Debt Held by the Public includes GAS securities issued to certain federal government accounts. One example is the GAS security held by the Thrift Savings Fund. Federal employees and retirees who have individual

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2000 and 1999

(Dollars in Millions)

Note 2. Federal Debt Held by the Public (continued)

accounts own the GAS securities held by the fund. For this reason, these securities are considered part of the Federal Debt Held by the Public rather than Intragovernmental Holdings. The GAS securities held by the Thrift Savings Fund consist of overnight investments redeemed one business day after their issue. The net increase in amounts borrowed from the fund during fiscal years 2000 and 1999 are included in the respective Borrowings from the Public amounts reported on the Schedules of Federal Debt.

Federal Debt Held by the Public includes federal debt held outside of the U. S. government by individuals, corporations, Federal Reserve Banks (FRB), state and local governments, and foreign governments and central banks. The FRB owned $527 billion and $515 billion of Federal Debt Held by the Public as of September 30, 2000 and 1999, respectively. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

Fiscal year-end September 30, 2000, occurred on a Saturday. As a result, $31,280 million of marketable Treasury notes matured but not repaid is included in the balance of the total debt held by the public as of September 30, 2000. Settlement of this debt repayment occurred on Monday, October 2, 2000.

Note 3. Intragovernmental Holdings

As of September 30, 2000 and 1999, Intragovernmental Holdings are owed to the following:

| | | 2000 | 1999 |
|---|---|---|---|
| SSA: | Federal Old-Age and Survivors Insurance Trust Fund | $893,519 | $762,226 |
| OPM: | Civil Service Retirement and Disability Fund | 496,986 * | 465,640 * |
| HHS: | Federal Hospital Insurance Trust Fund | 168,859 | 153,767 |
| DOD: | Military Retirement Fund | 149,348 | 141,274 |
| SSA: | Federal Disability Insurance Trust Fund | 113,707 * | 92,666 * |
| DOL: | Unemployment Trust Fund | 86,399 | 77,358 |
| HHS: | Federal Supplementary Medical Insurance Trust Fund | 45,075 | 26,528 |
| DOT: | Highway Trust Fund | 31,023 | 28,083 |
| FDIC: | The Bank Insurance Fund | 29,326 | 28,359 |
| RRB: | Railroad Retirement Account | 22,628 | 22,347 |
| OPM: | Employees' Life Insurance Fund | 22,372 | 20,755 |
| DOE: | Nuclear Waste Disposal Fund | 17,550 | 15,195 |
| HUD: | FHA – Liquidating Account | 17,260 | 14,942 |
| DOT: | Airport & Airway Trust Fund | 13,097 | 12,414 |
| VA: | National Service Life Insurance Fund | 11,804 | 11,954 |
| Treasury: | Exchange Stabilization Fund | 11,029 | 12,382 |
| FDIC: | Savings Association Insurance Fund (SAIF) | 10,747 | 10,144 |
| DOS: | Foreign Service Retirement & Disability Fund | 10,658 | 10,131 |
| Other Programs and Funds | | 68,768 | 66,726 |
| Total Intragovernmental Holdings | | $2,220,155 | $1,972,891 |

* These amounts include marketable Treasury securities as well as GAS securities as follows:

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2000 and 1999

(Dollars in Millions)

Note 3. Intragovernmental Holdings (continued)

| | GAS Securities | Marketable Treasury Securities | Total |
|---|---|---|---|
| As of September 30, 2000: | | | |
| Civil Service Retirement and Disability Fund | $496,567 | $419 | $496,986 |
| Federal Disability Insurance Trust Fund | 113,667 | 40 | 113,707 |
| As of September 30, 1999: | | | |
| Civil Service Retirement and Disability Fund | $464,561 | $1,079 | $465,640 |
| Federal Disability Insurance Trust Fund | 92,622 | 44 | 92,666 |

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Health and Human Services (HHS); Department of Defense (DOD); Department of Labor (DOL); Department of Transportation (DOT); Federal Deposit Insurance Corporation (FDIC); Railroad Retirement Board (RRB); Department of Energy (DOE); Department of Housing and Urban Development (HUD); Department of Veterans Affairs (VA); Department of the Treasury (Treasury); Department of State (DOS).

Intragovernmental Holdings primarily consist of GAS securities. Treasury issues GAS securities at either par value or at an amount that reflects a discount or a premium. The average interest rates for fiscal years 2000 and 1999 were 6.7 percent and 6.8 percent, respectively. GAS securities are issued with a term of on demand to 30 years.

Fiscal year-end September 30, 2000, occurred on a Saturday. As a result, $10,975 million of GAS securities matured but not repaid is included in the balance of the Intragovernmental Holdings as of September 30, 2000. Settlement of this debt repayment occurred on Monday, October 2, 2000.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt

For the Fiscal Years Ended September 30, 2000 and 1999

(Dollars in Millions)

Note 4. Interest Expense

Interest expense on Federal Debt Managed by BPD for fiscal years 2000 and 1999 consisted of the following:

| | 2000 | 1999 |
|---|---|---|
| Federal Debt Held by the Public | | |
| Accrued Interest | $186,007 | $196,448 |
| Net Amortization of Premiums and Discounts | 38,705 * | 33,619 |
| Total Interest Expense on Federal Debt Held by the Public | 224,712 | 230,067 |
| Intragovernmental Holdings | | |
| Accrued Interest | 140,917 | 127,517 |
| Net Amortization of Premiums and Discounts | 866 | (2,048) |
| Total Interest Expense on Intragovernmental Holdings | 141,783 | 125,469 |
| Total Interest Expense on Federal Debt Managed by BPD | $366,495 | $355,536 |

*Amount shown here differs from the net amortization amount on the Schedules of Federal Debt due to $62 million of net unamortized discounts written off relating to the marketable securities bought back prior to maturity through competitive redemption processes. (See note 6 for additional information on debt buybacks.)

Note 5. Fund Balance With Treasury

| | As of September 30, 2000 | As of September 30, 1999 |
|---|---|---|
| Appropriated Funds Obligated | $175 | $117 |

The Fund Balance with Treasury (FBWT), a non-entity, intragovernmental account, is not included on the Schedule of Federal Debt and is presented for informational purposes.

Notes to the Schedules of Federal Debt Managed by the Bureau of the Public Debt
For the Fiscal Years Ended September 30, 2000 and 1999
(Dollars in Millions)

Note 6. Debt Buybacks

Treasury's need to borrow from the public has declined over the past several years due to the improved fiscal position of the government. This improved fiscal position resulted in several changes related to debt management. One such change, beginning in fiscal year 2000, was Treasury's decision to buy back certain unmatured marketable securities, referred to as debt buybacks. Debt buybacks are competitive redemption processes by which Treasury accepts offers to redeem particular marketable Treasury securities prior to their maturity dates. Once the securities have been redeemed from investors, they are removed from the total Treasury securities outstanding.

On January 19, 2000, the Department of the Treasury issued rules in final form pursuant to 31 CFR Part 375 setting out the terms and conditions by which outstanding, unmatured marketable Treasury securities may be redeemed through Treasury buying back the securities. This authority to buy back securities enables Treasury to better manage financing needs, promote more efficient capital markets, and may lower financing costs for taxpayers. The first of these "buybacks" occurred on March 9, 2000. The premium paid represents the amount of money paid above par value to buy back securities. During fiscal year 2000, there were 13 buyback operations which involved the following:

| | |
|---|---|
| Total Amount Paid for Debt Buybacks, excluding Accrued Interest | $26,708 |
| Principal Amount of Debt Buybacks | 21,251 |
| Premium Paid on Debt Buybacks | $5,457 |
| Write Off of Net Unamortized Discounts on Debt Buybacks | 62 |
| Loss on Debt Buybacks | $5,519 |

# Comments From the Bureau of the Public Debt

DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
WASHINGTON, DC 20239-0001

February 22, 2001

Mr. Gary T. Engel
Director
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Engel:

This letter is our response to your audit of the Schedules of Federal Debt Managed by the Bureau of the Public Debt for the fiscal years ended September 30, 2000 and 1999. We agree with your audit report's conclusions.

I would like to thank you and your staff for conducting a thorough audit of these schedules. We appreciate the professionalism and dedication of your audit team. Although the audit team changed this year, the quick manner in which the new members were able to grasp the complexities surrounding the schedule greatly enhanced the audit process. Our staffs worked well together during the audit and, as usual, we look forward to continuing our productive and effective relationship.

Sincerely,

Van Zeck
Commissioner

www.publicdebt.treas.gov

# GAO Contact and Staff Acknowledgments

## GAO Contact

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## Acknowledgments

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